Rev Austrian Econ (2010) 23:411–413
DOI 10.1007/s11138-010-0113-5

Review of George Selgin, Good Money: Birmingham Button Makers, the Royal Mint, and the Beginnings of Modern Coinage

University of Michigan Press, Ann Arbor, 2008, 1775-1821 pages

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Published online: 9 June 2010
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Despite their general commitment to the market as the preferred process of resource allocation, economists do have a few areas that they often treat as exceptions to this principle. Foremost among those, for most economists, is the production of money. It is a widely accepted belief that private enterprise and the profit motive are incapable of producing money and near-moneys in a way that would assure both quality and macroeconomic stability. The power of both the mint and the printing press must be under the control of government if those two goals are to be achieved.

George Selgin has spent a career challenging that claim. In his 1988 book *The Theory of Free Banking* and a number of subsequent articles, Selgin made the case that competition was perfectly capable of producing money that would out-perform central banks in terms of avoiding inflation, deflation, and business cycles and generally providing a sound environment for entrepreneur-led growth. In his new book *Good Money*, Selgin explores the history of private coinage in Britain, arguing that private mints were effective in producing coins that could satisfy the market demand for small change. The book is a detailed and fascinating history, exploring both the institutions and the personalities that were central to the almost 50 years of private coinage that he covers.

The context for Selgin's story of entrepreneurial innovation is the shortage of small change that affected Great Britain in the mid to late eighteenth century. The early stages of the Industrial Revolution brought with it a general increase in monetary transactions as many things that had previously been done within the household and farm were now sold and purchased in the marketplace, including paying money wages. The increased scale of market production meant that large factories had to have sufficient coinage on hand to pay their workers. It also meant that the coins they were using had to be of sufficient quality to be accepted by

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workers and the merchants they purchased from. As it turned out, high quality coins, if not coins of any quality, were in very short supply, causing ongoing problems for firms trying to pay workers and merchants trying to make change. The result was that resources were diverted from enhancing wealth into finding ways, clever though they were, around this ongoing problem.

Selgin points to the Royal Mint as the culprit here, as the mint attempted to juggle among several different monetary units and what Selgin calls "pseudo-trimetallism" as it coined both gold and silver and allowed for copper token coins. A result of these policies was that full-bodied silver coins got dropped from circulation thanks to Gresham's Law. Silver was overvalued, leading to coins often being melted down and exported. Copper coins, aside from being "underweight," were frequently melted and lightened, worsening the underweight problem. In addition, the mint would occasionally stop creating copper coins altogether. Selgin notes that one reason for this was that copper was the money "for the middling and especially the poorer classes, and the poor had no clout" (21). So for public choice reasons, the mint was less concerned about ensuring that those groups had sufficient small change. There were a number of other explanations for the shortage of coin, as Selgin details, but whatever the reasons, the reality was that the shortage was an impediment to trade.

Selgin also points out that paper money could not fill the gap because the British government had outlawed bank notes of less than a pound in 1775 and raised that to £5 in 1787 and made the ban indefinite. Some small-denomination Scottish banknotes made their way south, but even those were not enough to satisfy the demand. In the end, the shortage was addressed by private coinage, despite the fact that such coinage was technically illegal. The bulk of *Good Money* is devoted to the story of how the various producers of these coins evaded the law, dealt with the mint, competed with each other and eventually faded away.

The level of detail and familiarity with primary sources that Selgin brings to the telling of his story is extremely impressive. The story he weaves is not just one of the rise and fall of private coinage, but also of the political and economic interconnections among the British government and a number of major industrialists of the time as well as the evolution of the technology of coin production. Along the way, Selgin also explores the role played by counterfeits and the ways in which even the producers of token coins acted to prevent cheap knock-offs. He also discusses the reasons such coins were accepted and used, providing nice historical illustrations of Menger's theory of the origin of money and its extensions in the Austrian literature.

The entry of new token coin producers peaked in 1794 when 64 new producers entered the industry. Selgin points out (123) that the high quality of these privately produced coins was producing a reversal of Gresham's Law as "Regal copper…was being resorted to less and less." In fact, the government produced coins were only accepted at a discount, sometimes at half the value of the private coins. Much of this production was centered in Birmingham, where, for perhaps obvious reasons, coinage grew out of the button making industry there. Birmingham was perhaps the British city most conducive to free enterprise, making new entry easy.

Selgin also details the ways in which private coin producers used markers of quality to help their coins circulate effectively. Production techniques that make it

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clear that these were original coins and not imitations signaled to the public that the coins were of value. As money producers have always done, the makers of token coins used a variety of symbols on their money to communicate trustworthiness and value, including engaging in very detailed designs that indicated that marked the style of specific producers. The middle of the book has a folio section full of color reprints of many of the coins Selgin discusses, making his descriptions of the coins come alive.

Selgin also discusses the eventual end of the private coinage movement. A number of complaints were raised about the private coins, including that they only circulated locally, that they were irredeemable, and that they infringed on an important government prerogative. Others just saw them as embarrassing in that a proud country was unable to supply its citizens with sufficient coins through the Royal Mint. Selgin offers brief counter arguments to each of these points, but the whole book is really the response as it shows how, whatever their imperfections, the privately issued coins did a great deal to address the shortage of small change and keep the industrial revolution on track at the turn of the nineteenth century.

As noted earlier, there is much in Selgin's narrative that serves to illustrate important aspects of Menger's theory of the origin of money and subsequent Austrian work on the private basis of monetary order. The book also serves as a terrific tale of entrepreneurship in action, including the problems caused when market entrepreneurship is geared toward getting government charters and contracts. The earlier chapters of the book are a nice case study in how difficult it can be to disentangle true entrepreneurship from rent seeking in such scenarios.

Although Selgin does not address it until the very end, and there only lightly, one obvious lesson from this history is the broader one "concerning the need to ponder governments' role in money through the same wary eyes economists tend to cast upon other government ventures" (305). Money has often been the exception to that critical gaze and Selgin's detailed and comprehensive history of private coinage in Great Britain provides plenty of reasons to turn that critical gaze right back at modern monetary arrangements. The mischief that central banks and other government involvement in money can cause has never been clearer than in the past few years, and in that sense Selgin's timing could not have been better. Understanding the ways in which government undermines "good money" and private enterprise is better at creating it is of critical importance to modern economics and modern economies. George Selgin's book is an important and powerful contribution to that effort.

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